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Report Highlights:
Due to rising domestic and world prices of coffee beans, Philippine production of coffee is forecast to increase slightly in CY 2005/06 and into the near future. Average buying prices for Robusta beans reportedly increased by as much as 35 percent last year. Despite an increase in domestic production, the Philippines is forecast to remain a net coffee importer as demand continues to outpace local output. Main country suppliers of coffee beans are Vietnam and Indonesia. Exports of soluble coffee in 2005 increased significantly, main export markets were Japan and Korea.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Executive Summary

Due to rising domestic and world prices of coffee beans, Philippine production of coffee is forecast to increase slightly in CY 2005/06 and into the near future. Average buying prices for Robusta beans reportedly increased by as much as 35 percent last year. Despite an increase in domestic production, the Philippines is forecast to remain a net coffee importer as demand continues to outpace local output. Main country suppliers of coffee beans are Vietnam and Indonesia. Exports of soluble coffee in 2005 increased significantly, main export markets were Japan and Korea.

Production

The Philippines has three bodies that release statistics on the domestic coffee industry, the Bureau of Agricultural Statistics (BAS), the International Coffee Organization Certifying Agency (ICOCA) and the National Coffee Development Board (NCDB). BAS relies on field surveys to determine production based on the average yield of productive trees standing. On the other hand, ICOCA and NCDB production estimates are based on the actual volume of coffee bean production purchased by processors, about 90 percent of which is the Robusta variety. As such, data coming from the various bodies usually differs because of untraded production in remote areas that may not be captured by ICOCA and NCDB.

Based on data released by BAS, an attached agency of the Philippine Department of Agriculture, domestic coffee production increased slightly last year. Coffee production is expected to continue expanding in the near future, albeit marginally, as new coffee trees come into production. Higher coffee buying prices and strong demand will also likely encourage more plantings. Coffee production in CY 2004/05 rose by about 3 percent from 102,000 MT to 105,000 MT (dried berry basis). Coffee production is not likely to improve significantly in the near future even with new plantings due to the relatively long gestation period of new coffee trees. Likewise, ICOCA and the NCDB, composed of government and private industry representatives, forecasts coffee production to increase in the next few years due to a reported increases in plantings and productive coffee areas.

The Philippines lies in a narrow area in the world called the coffee belt making it one of the few countries that can grow four varieties of coffee: Arabica, Excelsa, Liberica and Robusta. In 2005, Sultan Kudarat in Mindanao, over took Compostela Valley as the top producers of coffee. The other major producing areas are Davao City, Cavite and Compostela Valley.

COFFEE: Volume of Production, 2005 P (Dried Berry Form)	
Region / Province	**MT**
PHILIPPINES	105,892.76
LUZON	
CAR	6,010.37
Ilocos Region	77.93
Cagayan Valley	677.34
Central Luzon	1,626.56
CALABARZON	10,848.55
MIMAROPA	202.08
Bicol Region	381.69
VISAYAS	
Western Visayas	6,095.11

Central Visayas	585.32
Eastern Visayas	211.98
MINDANAO	
Zamboanga Peninsula	1,374.80
Northern Mindanao	6,037.11
Davao Region	29,768.92
SOCCSKSARGEN	27,187.36
ARMM	10,957.69
CARAGA	3,849.94

Source: Bureau of Agricultural Statistics

According to the Philippine Coffee Industry Strategic Action Plan prepared by the NCDB, the Philippines may be able to meet its own coffee demand by 2013, provided an additional 8,400 hectares of coffee trees are planted annually between 2006-2010. This may prove to be quite a difficult task, however, as industry sources indicate that the main constraint to increasing coffee production is the availability of planting materials and the cost of inputs such as fertilizer. The NCDB is seeking financial support from the government to establish mother clonal garden nurseries to meet the demand for coffee seedlings.

The NCDB reports that coffee buying prices are likely to remain high due to current production problems being experienced by some major coffee producers. Average domestic buying price of Robusta per kilogram (prices reported by roasters/processors) reported by ICOCA, increased by nearly 35 percent from P40.17 in 2004 to P54.37 last year. Average buying price during the first four months of the year was P59.70/kg.

According to BAS, weighted average farmgate prices of coffee improved by 15 percent from P38.56/kg to P44.04/kg in 2005. As a result of higher buying prices and rise in coffee output, the total value of domestic coffee production increased by nearly 3 percent last year. Average domestic farmgate price of Robusta beans improved significantly in 2005, from P33.66/kg in 2004 to P39.90/kg.

FARMGATE PRICES OF ROBUSTA, DRY BEANS (Pesos/kg)		
	2004	**2005**
Jan	37.25	36.53
Feb	37.57	36.91
Mar	36.93	40.60
Apr	32.59	34.84
May	32.03	34.99
Jun	34.22	37.72
Jul	36.48	42.80
Aug	34.85	42.70
Sep	31.92	42.70
Oct	29.23	43.23
Nov	29.67	43.21
Dec	31.19	42.58
Average	**33.66**	**39.90**

Source: Bureau of Agricultural Statistics

Farmgate prices of Arabica coffee beans, also improved significantly from P53.88/kg in 2004 to P61.39/kg last year. Interest in mountain-grown Arabica coffee by the growing number of coffee shops as well as by importing countries pushed up farmgate prices encouraging more plantings and harvest of this specific type.

FARMGATE PRICES OF ARABICA, DRY BEANS (Pesos/kg)		
	2004	**2005**
January	58.30	67.34
February	60.55	59.93
March	60.56	59.98
April	54.11	60.77
May	35.22	60.10
June	55.55	59.00
July	44.36	59.76
August	55.35	60.46
September	44.61	59.36
October	50.55	54.10
November	55.85	71.88
December	65.48	64.05
Average	**53.88**	**61.39**

Source: Bureau of Agricultural Statistics

Consumption

The GRP announced that GDP grew 5.1 percent in 2005, slower than it's projected target of 5.3 to 6.3 percent. The slower growth has been attributed to weaker farm output and slow export demand. Philippine GNP, however, rose by 5.7 percent last year, buoyed by remittances from overseas workers, although still lower than the 6.2 percent GNP growth in 2004. Surprisingly, the significant increase in overseas remittances (which have fueled personal consumption in recent years) did not boost personal consumption to expected levels.

Many analysts attribute the weak growth in consumption spending to the prevailing political uncertainty in the country. Average inflation was in the 7.7 to 7.9 percent range in 2005, and is projected at 8.0 to 8.5 percent this year. This year's GDP growth target is between 5.7 to 6.3 percent, lower than the previous GRP estimate of 6.3 to 7.3 percent. Some private analysts, however, predict a flat 2006 Philippine GDP growth rate compared to the previous year's level. Rising consumer and oil prices, as well as the imposition of new and additional taxes, are expected to produce shifts in the food consumption pattern of the average Filipino.

Despite a slowdown in the Philippine economy and an increase in coffee retail prices, consumption of coffee is not likely to be significantly affected. Coffee is generally considered to be a household staple even among the lower economic classes. Domestic coffee consumption is estimated to grow at around 2-3 percent per year, roughly equal to the nnual population growth. At present, soluble or instant coffee accounts for about 90-95 percent of all the coffee consumed in the Philippines.

Trade

Imports of coffee beans in CY 2004/05 increased slightly with Vietnam supplying over 86 percent of total Philippine coffee bean imports. From virtually no imports in 1996, Philippine imports grew to nearly 22,000 MT of coffee beans in CY 2004/05 valued at $21 million (National Statistics Office). Without significant increases in coffee production and with continued strong growth in domestic coffee consumption, coffee bean imports will likely remain high at nearly 40 percent of total domestic requirement. However, coffee bean imports in CY 2005/06 are forecast to increase modestly.

Based on NSO data, the value of soluble coffee exports, comprising almost all of Philippine coffee exports, doubled last crop year. Majority of all soluble coffee exports in 2005 were to Japan while the Sultanate of Oman was the main destination for green bean exports. While exports of soluble coffee have increased, exports of green beans have declined significantly last, likely as a result of good domestic buying prices. However, this trend is not expected to continue in the current crop year as total coffee exports recorded in July-December 2005 are significantly lower than the levels for the same period the previous year.

The 2006 MFN and CEPT tariff rates for coffee have not changed from the previous year.

Tariff Code	Description	MFN	CEPT	Remarks[1]
09.01	**Coffee, whether or not roasted or**			
	decaffeinated coffee husks and skins; coffee			
	Substitutes containing coffee in any proportion			
	- Coffee, not roasted			
0901.11	-- Not decaffeinated			
0901.11.10	--- Arabica WIB or Robusta OIB			
	A. In-Quota	30	5	Only for ID, LA & VN
	B. Out-of-Quota	40	5	Only for ID, LA & VN
0901.11.90	--- Other			
	A. In-Quota	30	5	Only for ID, LA & VN
	B. Out-of-Quota	40	5	Only for ID, LA & VN
0901.12	-- Decaffeinated			
0901.12.10	--- Arabica WIB or Robusta OIB			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.12.90	--- Other:			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
	- Coffee, roasted			
0901.21	-- Not decaffeinated			
0901.21.10	--- Unground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.21.20	--- Ground			
	A. In-Quota	40	5	Except BN,KH,MM & TH

[1] BN-Brunei Darussalam/KH-Cambodia/MM-Burma/TH-Thailand/ID-Indonesia/LA-Laos/VN-Vietnam

	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.22	-- Decaffeinated			
0901.22.10	--- Unground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.22.20	--- Ground			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH
0901.90.00	- Other			
	A. In-Quota	40	5	Except BN,KH,MM & TH
	B. Out-of-Quota	40	5	Except BN,KH,MM & TH

Source: Philippine Tariff & Customs Code, 2004

Policy

In 2004, the NCDB launched its 10-year coffee development plan entitled "Self Sufficiency: Philippine Coffee Industry Strategic Action Plan." To implement this development plan, the NCDB is seeking P2.6 billion ($42.3 million) in government funding. The DA has identified coffee as a priority crop and is seeking to develop two million hectares of new agricultural lands with various priority crops. To improve farm incomes, the NCDB's 10-year plan encourages the inter-cropping of coffee with high value commercial fruits and vegetables or cash crops. However, to date, the government has not provided the needed funds.

Under the NCDB program, about P150 million ($3 million) will be needed yearly to sustain the effort to increase coffee production. These activities include the establishment of mother clonal gardens to propagate high-quality coffee planting materials nationwide; coffee processing plants to add value to the commodity; establishment of a seed purchase fund; the rehabilitation of coffee farms and fertilization of coffee plantations. NCDB is projecting that in 10 years the country will increase annual coffee production to about 75,000 MT, sufficient to meet the projected demand in 2015. Without substantial support and funding from the national government, the development of the industry is not likely to succeed.

The local government of Amadeo, Cavite, a top coffee producing area in Luzon, is implementing an "Adopt-a-Farm Project" under the 10-year coffee development program. The Adopt-a-Farm project aims to convert underutilized and idle lands to productive coffee farms. The project is intended to provide extra income and generate jobs for farmers in rural areas. For P10,000 ($185) per year an individual may adopt one hectare and develop it into a productive coffee farm. The local government of Amadeo will provide technical support to the farmers.

Marketing

Nestle Philippines has committed to improve the technical knowledge of local coffee farmers by offering free short course in it's 16-hectare Nestle Experimental and Demonstration Farm (NEDF). Since 1994, Nestle has been offering the training to new and old coffee farmers, as well as agricultural students looking for on-the-job training venues. To date, it has already trained over 10,000 coffee technicians. In 2006 alone, 152 individuals have completed Nestle's three-day coffee training; 37 farmers in its three-week coffee specialist program; and 32 students in its on-the-job training program.

Nestle's three-day coffee production technology training in Tagum in Davao, covers all of the coffee farming stages: from nursery management and harvesting to marketing. An extensive two-week training program is also available in Cagayan Valley for more serious coffee farmers.
In 2003, Nestle introduced the Coffee-Based Sustainable Farming System that encourages intercropping of other crops between rows of coffee trees, to provide farmers with alternative income. In Misamis Occidental and Batangas, coffee farms have been planting lemongrass, bananas, sweet potatoes and peanuts. In Romblon, they are starting a coffee farm with jathropa, a principal source of jathropa oil, a major component of a more economical variety of bio-diesel.

According to Euromonitor, specialist coffee shops in the Philippines are expected to continue growing in coming years. Specialist coffee shops grew in terms of number of outlets, transactions and value sales, at 22 percent, 13 percent and 16 percent respectively in 2004, all slightly higher than in 2003. With Starbucks gaining more popularity and other specialty coffee shops following suit, more such outlets are likely to appear.

In 2004, specialty coffee shops had sales of about $36 million. The strong growth is mainly attributed to good consumer demand, as coffee drinking has become a very popular social activity. Increasingly, Filipino consumers are settling for a good coffee instead of alcohol on a night out. Coffee shops have become a status symbol for younger consumers. Working people find these specialty coffee shops to be convenient places for afternoon business meetings. With the growing popularity of coffee drinking in the country, Filipinos have started to be more discriminating in their preferences for coffee, according to Euromonitor.

In the Philippines, multinational chains dominate specialist coffee shops. Led by Starbucks, specialist coffee shops have been enjoying robust growth since appearing in the late 1990s. Other popular foreign franchised specialist coffee shops include Seattle's Best, The Coffee Bean & Tea Leaf and UCC Coffee. Figaro Coffee Company, the most popular local specialist coffee shop in the Philippines, was actually established earlier than Starbucks in the country. Recognizing the good growth potential for specialist coffee shops, many Filipino companies and even growers of locally produced coffee beans have opened their own businesses. The support of the local government and agriculture sector has also helped to rejuvenate the Philippine coffee industry.

PSD Table						
Country	**Philippines**					
Commodity	**Coffee, Green**				(1000 HA) (MILLION TREES) (1000 60 KG BAGS)	
	Revised	2004	Estimate	2005	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		07/2004		07/2005		07/2006
Area Planted	135	135	135	135	0	135
Area Harvested	118	118	113	118	0	120
Bearing Trees	95	95	95	95	0	95
Non-Bearing Trees	15	15	15	15	0	15
TOTAL Tree Population	110	110	110	110	0	110
Beginning Stocks	219	219	213	213	214	214
Arabica Production	35	35	35	35	0	38
Robusta Production	640	640	650	650	0	665
Other Production	25	25	25	25	0	25
TOTAL Production	700	700	710	710	0	728
Bean Imports	330	330	350	350	0	365
Roast & Ground Imports	3	3	3	3	0	3
Soluble Imports	50	50	50	50	0	50
TOTAL Imports	383	383	403	403	0	418
TOTAL SUPPLY	**1302**	**1302**	**1326**	**1326**	**214**	**1360**
Bean Exports	4	4	4	4	0	2
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	45	45	48	48	0	60
TOTAL Exports	49	49	52	52	0	62
Rst,Ground Dom. Consum	110	110	120	120	0	130
Soluble Dom. Consum.	930	930	940	940	0	955
TOTAL Dom. Consumption	1040	1040	1060	1060	0	1085
Ending Stocks	213	213	214	214	0	213
TOTAL DISTRIBUTION	**1302**	**1302**	**1326**	**1326**	**0**	**1360**